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EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

FEB 2 1984

MEMORANDUM FOR: ROBERT C. McFARLANE
ASSISTANT TO THE PRESIDENT
FOR NATIONAL SECURITY AFFAIRS

FROM: DAVID A STOCKMAN
DIRECTOR

SUBJECT: OMB Comments on Draft NSDD on National Space Strategy

In response to NSC's memorandum of January 25, attached are OMB's comments on the draft of the National Security Decision Directive on National Space Strategy. Outlined below are the overall points I wish to emphasize.

I am concerned that the present draft endorses some inappropriate roles for the Government in stimulating private sector investment in space. I have suggested changes to this draft to make the Government's role in the commercialization of space consistent with overall Administration policy vis-a-vis the private sector. The Government's role should most appropriately be to remove regulatory barriers to the private sector's entry. In addition, the Government may invest in basic research or other longer term research and development which is beyond the investment time horizon of private industry. As in the commercial ELV policy, the Government may also furnish services and facilities on a reimbursable basis.

It is not the Government's appropriate role to guarantee that the risks of commercial space ventures will somehow be made equal to those of other investment opportunities. This could lead to an open-ended commitment to unwarranted Government subsidies and set a precedent for other undesirable intervention in the marketplace (i.e., industrial policy).

I also believe that it would be premature to make a Government commitment to commercially developed expendable launch services until the budgetary and policy implications have been thoroughly reviewed.

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Concerning international cooperation, there is obviously a tradeoff between (a) desirable reduction of U.S. budgetary requirements and (b) the potential cost of the related technology transfer to the national security and the commercial position of U.S. industry. Before any specific commitments are made to other nations concerning their potential participation in the Space Station program, I recommend that NASA, DOC, and DOD assess the technology transfer implications of alternative proposals for international cooperation and report their findings to the SIG (Space).

I appreciate the opportunity to provide these comments and look forward to the resolution of these issues in the IG (Space) and SIG (Space).

Attachment

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Attachment

OMB Comments on National Space Strategy Draft NSDD (U)

1. Page 1, paragraph 4, first dash -- Change the latter half of the sentence to read: "The Space Station will provide the generic support capabilities necessary to encourage private investments for the quantity production in space of critical materials and pharmaceuticals not obtainable on earth." (Clarifies what capabilities the Space Station will provide.) (U)

2. Page 2, paragraph 4, second sentence -- Insert the word "Government" after "civil". (Makes this statement consistent with National Space Policy and Commercial ELV Policy.) (U)

3. Page 3, first full paragraph, second sentence -- Substitute "support" for "resources". (Clarifies that sentence does not refer to mineral resources.) (U)

4. Page 3, paragraph 2, end of paragraph -- Insert a new sentence: "No specific commitments will be made to other nations until the potential cost and other implications of the related technology transfer to the national security and the commercial position of U.S. industry has been assessed by NASA, DOD, and DOC and considered by the SIG (Space)." (The potential costs of technology transfer need to be better understood before specific cooperative proposals are presented to the President.) (U)

5. Page 3, side heading -- Substitute "encourage" for "stimulate". In the following paragraph, also substitute "encourage" for "take positive steps to stimulate". (Makes consistent with National Space Policy and avoids raising expectations of subsidies.) (U)

6. Page 3, fourth full paragraph, first full sentence -- Insert "Except for satellite communications, commercial" in place of "Industrial" and insert "largely" before "an unexplored frontier". (Clarifies present status of commercial opportunities.) (U)

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7. Same paragraph as above -- Insert "regulatory" before "barriers"; insert "where appropriate" before "encouraging industry"; and delete "incentives to offset high risks and long lead times" and insert "longer term research and development which is beyond the investment time horizon of private industry". (Confines U.S. Government support to appropriate Federal role established by Administration policy relative to commercial ventures in other areas.) (U)

8. Same paragraph as above -- Delete the last sentence of this paragraph. (This is a sweeping and unnecessary criticism of all the relevant regulations.) (U)

9. Page 3, bottom paragraph -- Substitute "measures" for "incentives" in the second line. Delete "tax credits". (Not all of the list of possible Government actions should be classified as incentives. In addition, the use of tax credits should not be encouraged since this undermines the President's budget process for determining program priorities.) (U)

10. Bottom of page 3 -- Insert a new paragraph: "The U.S. Government also reaffirms its policy that Government-funded systems will not be allowed to supplant or compete unfairly with private systems." (Makes it clear that the intended result is commercial systems, not additional U.S. Government programs.) (U)

11. Top of page 4 -- Delete the entire sentence. (This is a wide-open invitation to potentially enormous subsidies and a dangerous precedent for other undesirable intervention in the commercial marketplace.) (U)

12. Page 4, paragraph 2, second dash -- At the end of the sentence, add ", unless there is conflict with priority Government traffic." (Makes clear the priority of the Government's missions in accordance with the National Space Policy.) (U)

13. Page 4, paragraph 2, sixth dash -- Change to read "support appropriate additional basic research or other longer term research and development underlying private commercial application opportunities." (Makes consistent with overall Administration policy for R&D with commercial applications.) (U)

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14. Same paragraph as above, next line -- Substitute "reimbursable" for "easy". (Makes consistent with overall Administration user charge policies.) (U)

15. Same paragraph as above, last dash -- Substitute "provide an environment conducive to" for "support". (Removes the inference that the Government might be expected to provide funding support for such commercial activities and makes consistent with the National Space Strategy.) (U)

16. Page 4, last paragraph, first dash -- Change to read: "Continue to offer reduced rate transportation for selected initial high-risk, but potentially high public pay-off commercial space technology development efforts." (Keeps the Government to its appropriate role.) (U)

17. Same paragraph as above, next dash -- Delete first sentence and insert: "Allocate procurement of products for which the Government has an established need so as to encourage formation of new space ventures." (Assess that the Government "needs" are not driven by desires to support particular space initiatives.) (U)

18. Page 4, last sentence -- Insert at end, "to preclude unfair competition by the Government, or Government-funded entities." (Makes it clear that the intended result is a truly commercial venture, not a Government program.) (U)

19. Page 5, top of page -- Delete "Assist" and insert "Provide reimbursable technical assistance to". (Makes consistent with overall Administration user charge policy.) (U)

20. Page 5, first full paragraph, first sentence -- Delete "move vigorously" and insert "provide a climate conducive to expanded". (Makes consistent with National Space Strategy and removes implication that U.S. Government will inappropriately subsidize private sector investment.) (U)

21. Page 5, bottom paragraph -- Delete the first two sentences and insert: "Assured access to space is a prerequisite to fulfilling military requirements in space. The STS provides this capability in peacetime and remains the primary means of launch of DOD missions. Development of a fast reaction launch capability may be required for use under potentially hostile conditions. DOD will pursue efforts to develop this capability based on STS or alternative launch approaches." (S)

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22. Page 6, second paragraph, fourth dash -- Delete the words following "intelligence". (Support should not be limited in that way.) (U)

23. Page 6, bottom paragraph -- Insert "via the SIG (Space)" after "report the results to me." Insert the following sentence: "NASA, DOD, and DOC will assess the technology transfer implications of alternative proposals for international cooperation on the national security and the competitive position of U.S. industry and report their findings for consideration by the SIG (Space) before any specific commitments are made to other nations." (The potential costs of technology transfer need to be better understood before specific cooperative proposals are presented to the President.) (U)

24. Page 7, top paragraph, last sentence -- Delete this sentence. (This should be handled in the budget process.)

25. Page 7, second paragraph, first sentence -- Insert "fast reaction" in lieu of "assured". (More accurately describes the capability needed.) (U)

26. Page 7, third paragraph -- Insert DOT between DOD and NASA. (In view of the assignment of the Department of Transportation as the lead agency for encouraging and facilitating commercial ELV activities, DOT should be a member of the study.) (U)

27. Add a new paragraph -- "The Department of Commerce will continue to have the lead in commercializing civil land remote sensing satellites." (Continues the existing assignment.) (U)

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NATIONAL SPACE STRATEGY (U)

Attachment

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INTRODUCTION

National Security Decisions Directives 42, 50, and 94 established the policy framework of this Administration for the use of outer space. National Security Study Directive 13-82 directed a National Space Strategy Study to focus on initiatives needed to meet the goals and objectives of the national policy. This directive specifies a set of national priorities and initiatives required to focus the implementation of U.S. National Space Policy in order to capitalize on the potential of space and respond to the challenges of a changing world environment. (U)

This NSDD presents four major areas for priority emphasis within the U.S. Government:

- Establish a Permanent Manned Presence in Space
- Increase International Cooperation in Space
- Stimulate Private Sector Investment in Space
- Respond to the Changing National Security Environment in Space (U)

ESTABLISH A PERMANENT MANNED PRESENCE IN SPACE

The United States is committed to space leadership, technological superiority, and the peaceful exploration and use of space for the benefit of all mankind. As the next major step toward these ends, the United States will establish a permanent manned presence in space through development of a manned Space Station. (U)

The Space Station will enable the United States to realize the following capabilities:

The Space Station will provide the generic support capabilities necessary to encourage private investments for space

- Extensive commercial exploitation of space by providing various capabilities not currently available to the private sector, ~~such as~~ the production in ~~quantity~~ quantity of critical materials and pharmaceuticals not obtainable on earth.

(1)

- Efficient tending, servicing, and repair of unmanned platforms and satellites in order to increase the lifetime of expensive space assets and provide the flexibility to upgrade space systems as technology improves.

- On-orbit assembly and check-out of large space structures such as antennae, astronomical telescopes and satellites prior to their deployment.

- Changeable payload accommodations for commercial earth and ocean remote sensing instruments.

- Scientific research in fields such as astrophysics, solar system exploration, earth sciences and applications, life sciences, materials processing and communications. (U)

Space Station research focused on extending man's stay-time in space will permit future manned exploration and exploitation of space. Thus, in the longer term, the Space Station could provide the necessary first step for future historical advances in space, such as a permanent lunar base, a manned mission to Mars, a manned survey of the asteroids, a manned scientific and communications facility in geosynchronous orbit, or a complex of advanced scientific and industrial facilities in low earth orbit. (U)

Other nations will be invited to join with us in the Space Station Program and to contribute resources when necessary to achieving program objectives. The program will be structured so as to minimize the adverse impact of technology transfer. (U)

The undertaking of this major project will contribute to a revitalization of American high technology industry. The United States is committed to a free enterprise system. A Space Station promises to lay the foundation for future private sector growth in emerging key industrial-technological areas. The construction of the Space Station will challenge U.S. industry in the vital fields of pharmaceuticals, computers and robotics, among others. (U)

(2) It is in the interest of the Government United States to maintain a strong Space Shuttle program. The Shuttle is the key to routine access to space for both civil and national security missions. Making the Shuttle fully operational and cost-effective will remain NASA's highest priority. (U)

INCREASE INTERNATIONAL COOPERATION IN SPACE

For twenty-five years, our civil space program has been conducted with the active cooperation of other nations. The National Space Policy, reaffirming the importance of our international relationships, cited that two basic goals of our space policy are to:

- Promote international cooperative activities in the national interest.

- Cooperate with other nations in maintaining the freedom of space for activities which enhance the security and welfare of mankind. (U)

Cooperation with our friends and allies has brought numerous benefits to our civil space program and, more broadly, to our nation. Our open approach to our space program has demonstrated our peaceful intentions in space. International cooperation has helped obtain broad international acceptance of U.S.

activities in space, thus protecting our freedom of action for all desired routine uses of space, including civil, military and commercial uses. Our international activities in space have effectively counteracted much pressure in the arms control area, especially regarding Soviet initiatives for bans on anti-satellite weapons and bans on weapons in outer space. In addition, international cooperation has enhanced our image as the world's leader in space, has stimulated goodwill, has enhanced close ties with our friends and allies, and has generated benefits in other areas. (U)

International cooperation in space has provided more concrete benefits as well. The U.S. has gained access to foreign support ~~resources~~, thus relieving demands on our budget. Furthermore, cooperation has allowed the U.S. access to foreign sites, such as tracking stations and Shuttle contingency landing sites. Cooperation has also coupled foreign space programs to the U.S. space program, leading to the diversion of foreign space funds from potentially competitive developments into cooperative ventures. (U)

In light of the benefits of international cooperation in space activities, and also in order to deepen the U.S. commitment to work with all nations in the peaceful exploration and use of space, we invite our friends and allies to participate in the U.S. Space Station program. This participation could range from use of the completed facility to cooperation in the development of the Space Station. Agreements between NASA and foreign entities on specific cooperative activities will be the result of detailed negotiations taking into consideration mutual risks and benefits. (U)

No specific commitments will be made to other nations until the potential cost and other implications of the related technology transfer to the national security and the commercial position of U.S. industry has been assessed by NASA, DOD, and DOC and considered by the SIG (Space).

Encourage ~~STIMULATE~~ PRIVATE SECTOR INVESTMENT IN SPACE

The United States will encourage ~~take positive steps to stimulate~~ and accelerate private sector involvement and investment in space in order to explore and exploit the full economic potential of space and maintain overall U.S. competitive advantage in the world marketplace. (U)

Except for satellite communications, commercial ~~industrial~~ opportunities in space are largely an unexplored frontier, offering the possibility of major new technological developments with business applications but with substantial risks. The U.S. Government will promote industrial use of space by removing regulatory barriers to successful industrial space ventures and, where appropriate, encouraging industry by supporting ~~incentives to offset high risks and long lead times. The regulations that could affect industrial exploitation of space are yet to be written or were written without consideration of the economics of industrial investment in space~~. (U) longer term research and development which is beyond the investment time horizon of private industry.

The U.S. Government will encourage industry by supporting measures such as antitrust relief, R&D limited partnerships, ~~tax credits~~, liability insurance, property rights policies and a Government supported space science and applications program. (U) The U.S. Government also reaffirms its policy that Government-funded systems will not be allowed to supplant or compete unfairly with private systems.

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~~The U.S. Government's support of commercial space ventures will be designed to reduce, to levels competitive with other investment opportunities, the institutional, technical, and financial risks which inhibit investment in space.~~ (U)

To reduce institutional risks, we will consider initiatives which:

- Accelerate decisions regarding potential U.S. Government/private sector commercial space endeavor agreements.

- Integrate and process "normal" experimental, high-tech commercial payloads onto the Shuttle in less than six months, unless there is conflict with priority Government traffic.

- Solicit and encourage private sector development of space infrastructure hardware and services with private sector capital as an alternative to government procurement with government funds.

- Establish new institutional mechanisms to stimulate space commercial ventures by the non-aerospace, as well as the aerospace, community.

- Encourage the use of the NASA patent pool and the protection of private investor proprietary rights. (U)

To reduce technical risks, we will consider initiatives which:

- Support appropriate additional basic research ~~aimed at~~ commercial or other longer term research and development underlying private application opportunities.

- Systemize reimbursable ~~easy~~ access to experimental facilities.

- Establish a base of experimental data to expand dissemination of space technology information of potential commercial applications interest.

- Provide an environment conducive to ~~Support~~ the commercial development of space facilities that will facilitate additional commercial space endeavors.
(U)

To reduce financial risks, we will consider initiatives which:

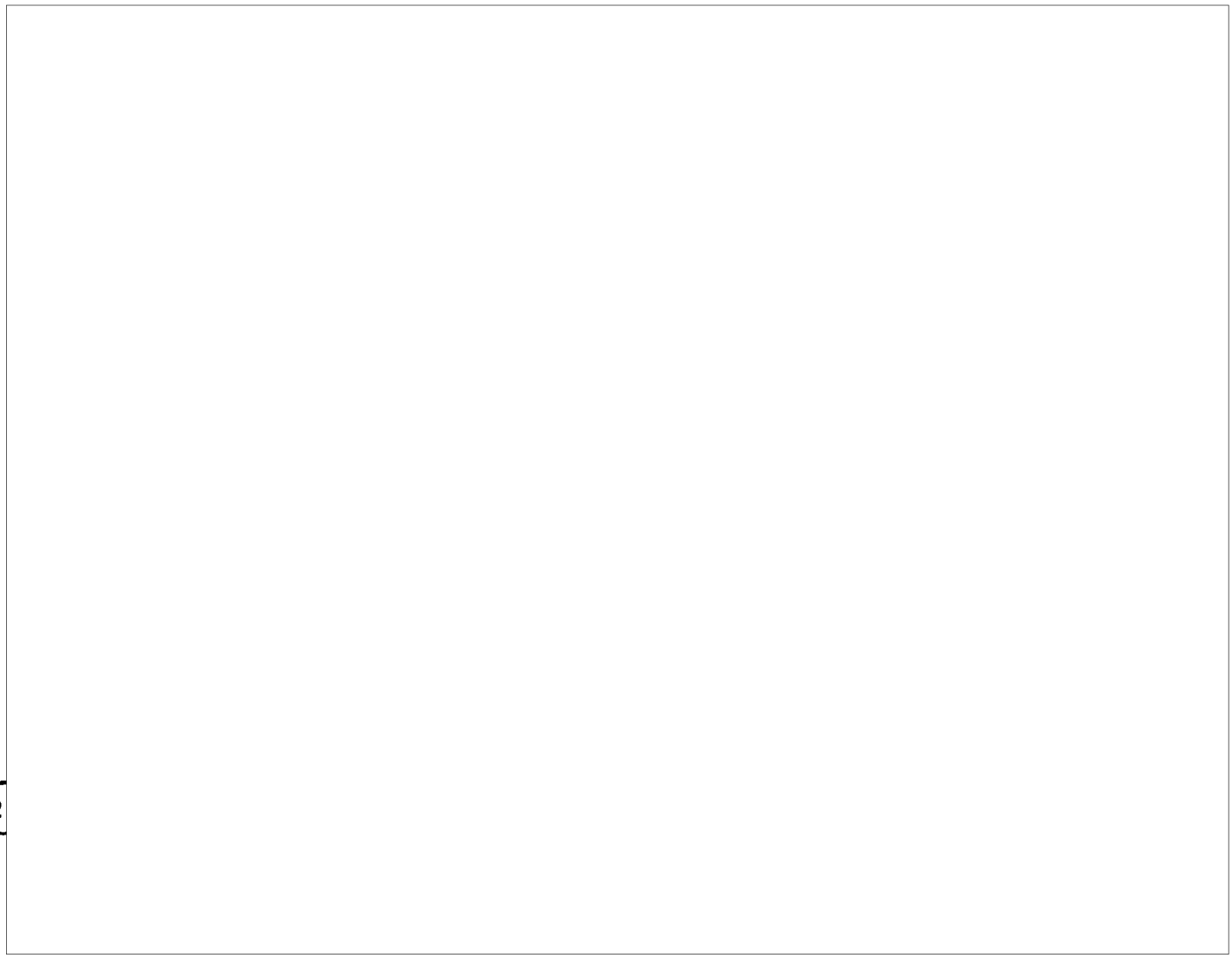
- Continue to offer reduced rate transportation for but potentially public ~~high-tech~~ risk high pay-off commercial space ~~products through demonstration of production feasibility.~~ selected initial technology development efforts.

- Allocate procurement of products for which the Government has an established need so as to encourage formation of new space ventures. ~~Provide partial market assurances during the formative stages of new space businesses if the government has a need for the product or service.~~ The government market assurances will leave significant private sector capital at risk.

- Provide some form of exclusivity for new high-tech commercial space ventures to preclude unfair competition by the Government, or Government-funded entities.

(19) - Provide reimbursable technical assistance to ~~Assist~~ commercial space ventures in integrating their equipment with the Shuttle. (U)

(20) The United States will ~~move vigorously~~ provide a climate conducive to expand ed private sector involvement and investment in space in a manner that will help maintain U.S. space leadership and bring significant benefits to the citizens of our nation. (U)



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IMPLEMENTATION

The manned Space Station Program will be executed and funded by NASA beginning in FY 1985. A permanent manned presence in space will be established by the early 1990s. NASA will make every effort to obtain maximum private sector and international participation in the program consistent with the need to minimize the adverse transfer of high technology to other nations. (U)

NASA and OSTP will jointly conduct a study to assess the feasibility of establishing more ambitious, long range goals for the civil space program such as a manned lunar station or manned expedition to Mars. Study results will be completed by December 1, 1984. (U)

The Administrator of NASA will visit with appropriate representatives from other nations and explore opportunities for constructive participation in the Space Station Program and, via the SIG (Space) along with the Secretary of State, report the results to me as soon as possible. (U) NASA, DOD, and DOC will assess the technology transfer implications of alternative proposals for international cooperation on the national security and the competitive position of U.S. industry and report their findings for consideration by the SIG (Space) before any specific commitments are made to other nations.

(23)

The Department of Transportation will take the lead in eliminating regulatory barriers for the commercialization of expendable launch vehicles. NASA will take positive steps to

(24) stimulate increased private sector investment in other areas of space. ~~NASA will take the lead in formulating appropriate executive initiatives and submitting proposals to Congress.~~ (U)

(25) The DOD will take appropriate fast reaction budgetary and management actions necessary to provide ~~assured~~ space launch capability, increase the survivability of critical space assets, maintain technological superiority and minimize the transfer of high technology to the Soviet Union. (U)

(26) DOD, DOC and NASA will jointly conduct a study to assess the nation's launch capability and organization. Specifically, the group will identify and assess options concerning: investments necessary to satisfy near and long-term launch requirements, technologies requiring increased investment, and management of manned and unmanned launch systems. A report will be prepared by June 1, 1984. (U)

(27) ¶ The Department of Commerce will continue to have the lead in commercializing civil land remote sensing satellites. (U)

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